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SUBJECT: GOP INVESTIGATING CAMISEA PIPELINE RUPTURES

REF: LIMA 0742

11. (U) SUMMARY: The GOP suspended Camisea's gas liquids piping amid uproar over pipeline ruptures. Two recent reports allege that substandard pipeline and construction procedures used to build the Camisea natural gas line are responsible for four pipeline breaks in the past year. A fifth rupture on March 4 reportedly caused injuries associated with an explosion. The Energy Ministry Environmental Director cautioned Econoff on March 2 that media claims of environmental and health damage (of the first four breakages) are exaggerated. The acting manager of the GOP agency that oversees pipeline construction, OSINERG, told Econoff that a disparaging report lacks objectivity and proof, but has dispatched inspectors to investigate the allegations. The allegations, even if exaggerated, point to capacity problems in the GOP regulatory agencies that oversee construction, health and environmental concerns of the hydrocarbon industry. Presidential candidates have quickly jumped on the Camisea-bashing media bandwagon with the election just a month away. The Embassy will continue to monitor the situation. END SUMMARY.

New Pipeline Rupture; Reports Critical of Past Ruptures

12. (U) There have been four ruptures in the Camisea natural gas liquids pipeline during the first fifteen months of operation, causing cessation of flow and spilling of liquids. Two recent reports have ignited media allegations that attribute alleged environmental and human health damage to malfeasance in construction of the pipeline. OSINERG, the GOP energy regulating agency that has responsibility for overseeing the construction and operation of the Camisea and other pipelines, and Transportes de Gas de Peru (TGP), the Camisea consortium that built (with U.S. firm Hunt Oil and Argentine firm Techint as major shareholders) and operates the pipeline, both disputed the reports and announced they were conducting their own investigations.

13. (U) A fifth rupture occurred on March 4, with an associated explosion that reportedly injured four persons. Energy and Mines Ministry (MEM) Hydrocarbons Director and

Energy Environmental Director flew immediately to the site. Prime Minister Kuczynski noted publicly that sabotage was a possibility, but has since apologized for prematurely raising this possibility. (Note: Injuries from a remote pipeline rupture are rare. In the previous four ruptures, there was only one confirmed injury from a burn. End Note.) All major media outlets have covered the ruptures extensively; several presidential candidates have joined in calling for investigations and sanctions for parties proven negligent.

14. (U) On March 7 President Toledo announced a GOP investigation into the state of the Camisea pipelines, likelihood of future breaks, and causes and extent of damages from the past pipeline breaks. PlusPetrol, the Argentine firm with the natural gas delivery concession, announced it was suspending delivery of natural gas to two electricity plants but otherwise maintaining service. The MEM announced that it had suspended authorization of the liquids pipeline use until investigations showed the line was safe. (Note: the gas and liquids pipelines run side-by-side from the Camisea fields over the Andes until the liquids pipeline terminates at the PlusPetrol fractionation plant in Pisco; the gas pipeline continues up the coast to the Lima area. End Note.) On March 8, the GOP authorized OSINERG to procure a comprehensive audit of the Camisea pipelines, using a special expeditious process. This would involve retaining an international company (most likely a U.S. firm) to conduct the study. The GOP also designated a commission to revise, within 90 days, the natural gas transportation regulations.

Reports Allege Bad Pipe, Bad Welding, Fish Kills

15. (SBU) The first report on the four ruptures was prepared by the U.S. consultant firm, E-Tech, and presented at an February 27 Inter-American Development Bank (IADB) meeting called to discuss the pipeline ruptures. (Note: It is unclear who funded the report; the report's editor is a long time activist for independent Camisea monitoring. End Note.) The report admits that heavy rains and landslides were partial causes of pipeline ruptures, but lays primary blame for the four pipeline ruptures on alleged use of substandard pipe and on faulty welding. The author states he was a TGP welding supervisor during construction, where he witnessed use of faulty welds and substandard pipeline. (Note: not mentioned in report is whether author reported these deficiencies to his supervisors. End note.)

16. (U) The GOP Human Rights Ombudsman prepared the second report after a two-year study, describing Camisea project effects on four issues that reportedly affected the human rights of Peruvians: the right to health of indigenous peoples (with reports of increased disease levels, e.g. of syphilis); environmental damages from fractionation plant in Paracas and pipeline incidents (for example from riverine fish kills); compensation of pipeline right-of-way owners under GOP eminent domain proceedings; and inadequate citizen participation and access to information. (Note: The second and third issues were largely resolved. Land titling issues were, not surprisingly, legion in the vast remote areas where most land titles have never been legally determined; the number of outstanding title issues in litigation is relatively small. Siting the pipeline terminus/fractionation plant near Paracas was controversial but no significant environmental problems have been reported thus far. The arrival of a large investor in the area has been a boon as the company has contributed funds for the restoration of an area long polluted by fishmeal factories. End Note.)

GOP Officials Dispute Accuracy of Reports

17. (U) The OSINERG Acting Manager, on his way to visit pipeline sites in the field, told Econoff on March 3 that while OSINERG cannot attest to the quality of each pipeline section or weld, TGP did submit appropriate certifications during the course of construction. OSINERG inspectors have

fanned across pipeline sections to investigate the allegations in the E-Tech report.

¶8. (SBU) Econoff met with Iris Cardenas, Energy Environmental Director at the Ministry of Mines and Energy (MEM,) on March 2 to discuss the reports. Cardenas traveled to Washington for the February 27 IADB meeting at which the E-Tech report was presented; she said that discussion revealed that the former inspector was the sole author of the report, calling into question the report's objectivity and accuracy. The claims of substandard piping and bad welds would have to be investigated by OSINERG, she said, but she could speak to the environmental damage alleged in the E-Tech and Ombudsman reports.

¶9. (SBU) Cardenas said she had personally visited each rupture site immediately afterwards. While rupture of the liquids pipeline does entail some absorption into water or soil, probably 50 percent of the volume evaporates immediately; the other 50 percent in the four spills caused some transitory contamination but nothing permanent. Regarding allegations in Ombudsman and media reports of fish kills, Cardenas said that while any fish coming into immediate contact with spilled liquids would die, the effect is short lived due to the diluting effect of the rivers. The reduction in fish populations are due to numerous factors, including lack of state control over fishing seasons with attendant overfishing and the widespread use by indigenous people of barbasco (a tropical plant that paralyzes fish).

¶10. (SBU) Regarding other negative health effects from the Camisea pipeline, Cardenas noted capacity problems with the Ministry of Health's DIGESA health inspection agency. There were no adequate baseline studies for clinical conditions such as syphilis, which some indigenous groups have asserted have risen. DIGESA lacks the capacity to systematically collect and process environmental samples for health testing, Cardenas continued. Shortly after a liquids pipeline rupture, the liquids are flammable for at most a matter of hours, but in the first four ruptures so far only one burn had been verified. (Note: There appear to be four burn or blast victims from the March 4 rupture. End Note.)

¶11. (SBU) Cardenas said that there have been regular interagency meetings to discuss health and environmental effects from the Camisea pipeline. The GOP Environmental agency CONAM chairs the Interagency Environmental Committee (CAT), which will next meet April 18 in Cuzco to discuss health, environmental protection and education in the pipeline areas. In addition to representatives from MEM and the Health ministry, DIGESA and OSINERG, regional and municipal governments and the Fisheries Vice Ministry will explore together a way forward. Cardenas noted that ineffective use of royalties paid to local governments appeared to be a primary reason for lack of services to pipeline area residents.

¶12. (U) Cardenas noted that her office has just published new regulations on environmental safeguards during pipeline construction and operation. Construction plans for the next major pipeline project, Camisea II (Reftel), will have an integrated plan that considers economic effects of the pipeline on area residents, environmental impacts and engineering safeguards. (Note: Hunt Oil officials have told Econoff that lessons learned from the landslides that have afflicted the Camisea I pipeline will be applied to the Camisea II line, both in choice of route and construction techniques. End Note.)

Comment

¶13. (SBU) While both reports may be exaggerated or lacking in proof, they have served to generate debate and a full investigation by all government agencies concerned. The Andes and high Amazon jungle barriers that the pipelines cross are formidable, and heavy rains with attendant

landslides at this time of year have always played havoc with engineering projects. More troubling are the indications that there has been inadequate followup to the social and environmental impacts from Camisea construction and operation. Resolving pipeline problems in the short term may not be an easy task after many politicians -- including leading presidential candidates - and "experts" have been quick to demand investigations, fines, convictions, or cancellation of the Camisea concession contracts. Post will continue to monitor the situation and meet with all regulatory agencies after they have finished their inspections, OSINERG chief and MEM Hydrocarbons director on their return from pipeline inspections. End Comment.

POWERS